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FM AMEMBASSY MANILA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2907
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UNCLAS SECTION 01 OF 03 MANILA 000107

SENSITIVE

SIPDIS

STATE FOR EAP/MTS, EAP/EP/ EEB/IFD/OMA
STATE PASS EXIM, OPIC, AND USTR
STATE PASS USAID FOR AA/ANE, AA/EGAT, DAA/ANE
TREASURY FOR OASIA

E.O. 12958: N/A
TAGS: EFIN ECON ECIN RP CN XE XD
SUBJECT: Financial Crisis Impact on Assistance to the Philippines

MANILA 00000107 001.2 OF 003

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ZFR PLS CANCEL MANILA 00107 WILL ZFR
BE RESENT UNDER NEW MRN
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MANILA 00000107 002.2 OF 003

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ZFR PLS CANCEL MANILA 00107 WILL ZFR
BE RESENT UNDER NEW MRN
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MANILA 00000107 003 OF 003

in the corporate income tax rate from 35% to 30% and from a tax relief package for minimum wage and salaried workers that went into effect in July 2008 in response to high food and consumer price inflation. The 2004 passage of a controversial value added tax law improved government finances and helped the country avert a fiscal crisis, but weak tax collection, currently at only 14.5% of GDP, remains a challenge and lags most of the Philippines' Asian neighbors. There are also continuing challenges and weaknesses in infrastructure project implementation and public expenditure management.

¶11. (U) The government successfully raised $1.5 billion from the international bond market on January 7 - achieving its full-year foreign commercial borrowing target at a coupon rate of 8.5%, roughly 30-40 basis points more than what comparable Philippine bonds due in 2019 yielded ahead of this issue. The government seeks another $1 billion from multilateral and bilateral donors, according to Philippine Finance Department and Treasury Bureau officials.

Actions of Other Organizations

¶12. (U) The Philippines has not requested an International Monetary Fund program. The Asian Development Bank expects higher requirements for budget support than agreed under its Country Operations Business Plan 2009-2010 and will hold discussions in the first quarter of 2009. The Philippines requested assistance from the World Bank to counter the impact of the crisis during the annual meetings last October 2008. The World Bank agreed in December 2008 to a $200 million Development Policy Operation to support the Philippine Government's efforts to address the challenges of high

food prices in the short and long term. These funds will support conditional cash transfers and other social safety nets for vulnerable households. The Philippines has asked assistance from the World Bank and USAID to help determine the risks and potential impacts of the global financial crisis and economic downturn on the Philippines.

Impact on Assistance Programs

¶13. (U) According to the International Monetary Fund, the widening interest rate spreads between Philippines and U.S.-based debt yields could negatively affect bank profitability in the Philippines. The World Bank's new Country Assistance Strategy notes increased vulnerability to external shocks, changes in investor sentiment, and the possible adverse impact on overseas worker remittances, exports, and foreign direct investments. The European Community delegation in the Philippines is still responding to concerns from the food price crisis of early 2008 rather than the current financial crisis. Australian and Japanese assistance programs are monitoring the situation closely, but have not reported any operational changes due to the global financial crisis.

¶14. (U) Comment: As we reported in refs A and B, the impact of the global financial crisis in the Philippines will probably be significantly less than what is felt in many neighboring economies, and though key sectors may suffer substantial losses, overall the Philippines is still expected to avoid an outright financial crisis or broad, severe economic downturn of its own. Of course, the Philippines would suffer significantly if large numbers of overseas workers lose jobs and remittances decline, or if food prices spike again this year. These possibilities are not likely, but in such a scenario an appropriate shift in the focus of assistance efforts may be warranted. For now, however, we are maintaining our current programs as planned and continue to monitor the situation closely.

Kenney